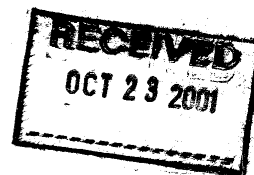




DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



OCT 17 2001

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX
ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report – "More Can Be Done to Help
Taxpayers Comply With Alternative Minimum Tax
Provisions" (Audit #200040018)

The Alternative Minimum Tax has undergone a number of legislative changes in its 30-year history. Your report correctly outlines the growth of impacted taxpayers since the inception of this law. The number of taxpayers impacted remains relatively small in comparison to our total volume of Individual Income Tax Returns processed. Approximately 853,000 returns filed in 1999 included a Form 6251, Alternative Minimum Tax (AMT), out of a total of 125 million Individual Income Tax Returns filed. We recognize that the enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001, may dramatically increase the number of taxpayers required to file Form 6251 after 2004, unless additional legislation is enacted. We commented on this impact in our analysis of the Joint Committee on Taxation, Report JCX-03-01, Description of the Economic Growth and Tax Relief Act of 2001, February 27, 2001. Your report does not explain that because of the AMT Relief Provision built into the Economic Growth and Tax Relief Reconciliation Act, the number of taxpayers filing for the AMT is less than the projected growth under "old law" until tax year 2005.

I reviewed your draft report and generally agree with the recommendations. We will improve our forms to increase awareness of the AMT. We have also initiated improvements to our return processing procedures that will encourage compliance with this requirement.

Our comments on your recommendations follow:

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should revise the letter sent to taxpayers during return processing that requests the AMT form. The letter should explain what AMT is and should include the return items and amounts that the IRS used to calculate AMT.

ASSESSMENT OF CAUSE:

The letter sent to request a missing AMT form did not explain what AMT is and did not provide taxpayers with available information as a starting point for computing their AMT. A more informative letter could improve compliance by increasing the number of taxpayers who respond with a completed AMT form.

CORRECTIVE ACTION:

We agree the computer-generated letter should provide additional information to assist the taxpayer in meeting their tax obligation. We will draft a new selective paragraph better describing the AMT and explaining to the taxpayer where they can obtain additional information to assist in the computation of the tax. This information will include the website address and applicable IRS Publications.

IMPLEMENTATION DATE:

January 1, 2002

RESPONSIBLE OFFICIALS:

Chief, Individual Masterfile Branch
Director, Submission Processing
Director, Customer Account Services
Commissioner, Wage and Investment Division

RECOMMENDATION 2

The Commissioner, Wage and Investment Division, should revise the return processing procedures to send the letter requesting a missing AMT form to taxpayers filing a Schedule E.

ASSESSMENT OF CAUSE:

When processing returns, we referred potential AMT returns with a Supplemental Income and Loss (Schedule E) to the Examination function without requesting the missing AMT form from the taxpayer. A prior procedure required Submission Processing to refer returns with Schedule E without corresponding with the

taxpayer. When we eliminated this requirement we did not update the return processing procedures to reflect this change.

CORRECTIVE ACTION:

We have revised the instructions in the Internal Revenue Manual (IRM) to include requesting the Form 6251 from taxpayers when they file a Schedule E and meet the AMT criteria.

IMPLEMENTATION DATE:

January 1, 2002

RESPONSIBLE OFFICIALS:

Chief, IMF Branch
Director, Submission Processing

Director, Customer Account Services
Commissioner, Wage and Investment Division

RECOMMENDATION 3

The Commissioner, Wage and Investment Division, should insert a page reference to the AMT instructions on the AMT line of the tax return. The Commissioner, Wage and Investment Division, should consider inserting cautionary statements on the AMT line of the tax return, in the instructions for the tax line, and in the Tax Tables/Tax Rate Schedules to direct taxpayers to the instructions for the AMT.

ASSESSMENT OF CAUSE:

IRS tax forms and instructions do not clearly lead taxpayers to determine if they owe AMT. The AMT line does not have references to the instruction pages where we explain the particular line entry in detail. No cautionary statement on the AMT line, in the instructions, or in the regular tax tables alerts taxpayers to possible AMT liabilities.

CORRECTIVE ACTION:

For tax year 2001, we will revise Form 1040, Individual Income Tax Return, to add emphasis on the Alternative Minimum Tax. We will print the AMT line in boldface. We will also add, "See page xx," on the line to guide taxpayers to the instructions. We have considered inserting cautionary statements; however, we do not believe they would be an effective method of communicating the

requirements of AMT. The addition of the page reference to the instructions for AMT will make cautionary statements unnecessary.

IMPLEMENTATION DATE:

January 1, 2002

RESPONSIBLE OFFICIALS:

Director, Tax Forms and Publications

Director, Media and Publications

Director, Customer Assistance, Relationships and Education

Commissioner, Wage and Investment Division

If you have any questions, please call me or Ron Watson, Director, Customer Account Services, at (404) 338-8910.